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Federal Trust Funds and the Budget

Updated February 27, 2014

Congressional Research Service
https://crsreports.congress.gov
R41328

CRS REPORT
Prepared for Members and
Committees of Congress

Summary

The federal budget consists of four basic fund groups—the general fund, special funds, revolving funds, and trust funds. The first three are often referred to as the federal funds group. Trust funds are an accounting mechanism that records revenues, offsetting receipts, or collections earmarked for the purpose of the specific fund. Trust funds generally share three common features: (1) they are established for programs serving long-term purposes, (2) monies are used for a single purpose, and (3) users are charged to finance the trust fund. About 40% of all federal outlays were through trust funds and about 37% of all federal receipts came to trust funds in fiscal year (FY) 2012.

A federal trust fund often represents a long-term commitment to use specific funds for a certain purpose. It has been argued that the creation of a trust fund is one way for Congress to "commit" future Congresses to fund a specific program or "to make long-term promises stick." Dedicated revenues are used to fund the program and the revenues usually come from the beneficiaries of the program.

The Office of Management and Budget tracks approximately 120 trust funds and trust fund aggregates. The 13 largest trust funds account for nearly all (over 99%) of the income to, outgo from, and balances of all trust funds.

Trust fund receipts come from a variety of sources. Almost all trust funds receive monies from current or future beneficiaries. Most trust funds receive general revenues in terms of direct payments or interest payments. In addition, some trust funds receive payments from other trust funds. Most trust fund programs have permanent budget authority and all monies in the trust fund are available for obligation. The outgo of a trust fund is comprised of payments made to the public or to another trust fund.

Cumulatively, trust fund surpluses (i.e., revenues in excess of outgo) in FY2012 amounted to $89.9 billion. This surplus is mostly invested in government obligations and transferred to the general fund to pay for other spending. By law, all trust funds except the Railroad Retirement fund must invest balances in government obligations. The Railroad Retirement fund is allowed to invest its balance in equities. The government securities held by trust funds are part of federal debt that is subject to the statutory federal debt limit. At the end of FY2012, the trust funds held $4,388.5 billion in government securities. The federal funds deficit for FY2012 was $1,176.8 billion, but because of the trust fund surplus, the unified federal budget deficit (what is widely reported in the press) was $1,087.0 billion.

Some observers have argued that trust fund programs increase the federal deficit and reduce national saving. There is evidence, however, to support the claim that trust fund surpluses reduce the federal government deficit and increase public saving. This becomes important when a trust fund's revenues are less than its outgo and the Treasury securities held by the trust fund need to be redeemed to cover outgo. The Treasury securities in the trust fund are claims on the government and the government will need to find real resources (by raising revenue, decreasing spending, or issuing more debt) to cover these claims when the obligations are redeemed.

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The federal budget consists of four basic fund groups—the general fund, special funds, revolving funds, and trust funds. The first three are often referred to as the federal funds group. General funds are not earmarked for a specific purpose and, consequently, there is no direct link between revenues (primarily tax revenues) and the goods and services paid for out of those funds. Both special and revolving funds receive dedicated monies for spending on specific purposes. Trust funds are an accounting mechanism that records revenues, offsetting receipts, or collections earmarked for the purpose of the specific fund. Trust funds generally share three common features: (1) they are established for programs serving long-term purposes, (2) monies are used for a single purpose, and (3) users are charged to finance the trust fund. Federal trust funds are an important part of the budget. About 40% of all federal outlays were through trust funds and about 37% of all federal receipts came to trust funds in fiscal year (FY) 2012.[1]

Despite the name, federal trust funds do not necessarily share all the same attributes as private sector trust funds. A trust in the private sector is "a fiduciary relationship in which one person (the trustee) holds property for the benefit of another (the beneficiary)."[2] The trustee must follow the express terms of the trust instrument and administer the trust for the benefit of the beneficiary. In contrast, most federal trust funds are not based on a legal fiduciary relationship. Congress creates trust funds that involve a commitment to use monies for a specific purpose, but can alter the terms (e.g., receipts, outlays, or purpose) of the trust fund at any time.

The Office of Management and Budget tracks approximately 120 trust funds and trust fund aggregates. While most trust funds are associated with a particular program, some trust funds were established to carry out a conditional gift or bequest.[3] Many trust funds are relatively small with balances of less than $100 million.

Why Use Trust Funds?

A federal trust fund often represents a long-term commitment to use specific funds for a certain purpose. It has been argued that the creation of a trust fund is one way for Congress to politically "commit" future Congresses to fund a specific program or "to make long-term promises stick."[4] Generally, the largest source of funds for the trust fund is charges to users or future users. Most receipts for the two Social Security trust funds come from payroll taxes on current workers. In FY2012, payroll tax receipts to the Old-Age and Survivors Insurance trust fund amounted to 67% of total cash income. Payroll tax receipts amounted to 76% of the total for the Disability Insurance trust fund in the same year.[5] The same is true for the Hospital Insurance trust fund (one of the two Medicare trust funds) with 81% of receipts coming from payroll taxes. Funds for the Airport and Airway trust fund come mainly from taxes on passengers and other users (98% of receipts). However, this is not true for all trust funds. For example, only about 26% of receipts for

[1] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2014* (Washington: GPO), Table 27-1.

[2] For example, monetary gifts or property bequests can be accepted to the extent allowed by law for the purpose of aiding or facilitating the work of a specific federal department or agency or for the purpose specified by the donor. Eric M. Patashnik, *Putting Trust in the US Budget: Federal Trust Funds and the Politics of Commitment* (Cambridge: Cambridge University Press, 2000), pp. 7-8.

[3] Patashnik, *Putting Trust in the US Budget*, p. 2. Patashnik notes there are 35 such trust funds.

[4] Patashnik, *Putting Trust in the US Budget*.

[5] Payroll tax receipts to these trust funds between January 2011 and December 2012 represent a lower percentage of total cash income than in prior years due to the temporary reduction in employee payroll tax rates in order to stimulate the economy following the December 2007 to June 2009 recession. For more information, see CRS Report R41648, *Social Security: Temporary Payroll Tax Reduction*, by Dawn Nuschler.

the Supplementary Medical Insurance trust fund come from premiums on current users and over 70% come from general revenues.[6]

The promise by Congress to fund a specific program in the future is not a legally binding commitment, but is more of a political commitment that future Congresses may find difficult to overturn. It has been argued that trust fund programs couple "the benefits and costs of these programs more closely, and it also lends a degree of assurance to beneficiaries and grantees that trust fund benefit or grant schedules once established will be protected."[7]

It has further been argued that, in addition to the expectations deriving from this political commitment, "a trust fund is only as secure as its beneficiaries are powerful."[8] For example, in the creation of Social Security and unemployment insurance, President Franklin D. Roosevelt insisted that workers pay payroll taxes. Roosevelt reportedly said "[w]e put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions and their unemployment benefits. With those taxes in there, no damn politician can ever scrap my social security program."[9] Roosevelt's rhetoric indicates he wanted to create a large and powerful constituency for the program—workers and beneficiaries.

The use of user fees or other earmarked revenues for trust fund programs may help explain why trust funds generally run an annual surplus whereas federal funds generally run annual deficits. Taxpayers may be more willing to pay earmarked taxes because they know what the taxes are used for, whereas they may have little idea of how general revenues are spent. Alice Rivlin, former director of the Congressional Budget Office and the Office of Management and Budget, argued that taxpayers may believe that general revenues are "spent wastefully or even fraudulently, or that a substantial part of it goes for services of which they disapprove."[10]

Each year, numerous bills are introduced in the House and Senate to create new trust funds. A trust fund can be created by simply designating it as such in the legislation by including a provision similar to the following language: "There is established in the Treasury of the United States a trust fund to be known as ... "[11] Setting aside the political effects described above, whether a certain fund is designated as a trust fund or part of the federal funds group can be arbitrary and, in many cases, may not fundamentally affect the use of those funds or the operation of the program intended for use of those funds.

Once a trust fund is created with a dedicated revenue source, Congress does not necessarily take a hands-off approach to the program. Congress frequently changes these programs, often to better align receipts with outlays, and in at least one instance to terminate the program (e.g., the General Revenue Sharing trust fund).[12]

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[6] The remaining cash income for these trust funds comes from interest payments and other transfers from federal funds.

[7] President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), p. 26.

[8] Allen Schick, *The Federal Budget: Politics, Policy, Process*, 3rd ed. (Washington: Brookings Institution Press, 2007), p. 44.

[9] Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin Co., 1958), pp. 308-309. While workers may have a moral and political right to their Social Security benefit, the Supreme Court ruled in 1960 (Fleming v. Nestor) that they do not have a contractual right to their benefit.

[10] Alice M. Rivlin, "The Continuing Search for a Popular Tax," *American Economic Review, Papers and Proceedings*, vol. 79, no. 2 (May 1989), p. 114.

[11] Some examples of legislation creating trust funds in the 113th Congress include H.R. 216, United States Library Trust Fund Act, and S. 220, Citrus Disease Research and Development Act.

[12] A recent example is the Airport and Airway Extension Act of 2010, Part II (P.L. 111-197), which extended through

Trust Funds and the Budget

Prior to FY1969, the federal budget consisted of three different budget concepts: the administrative budget, the cash budget, and the national income accounts budget. Much of the congressional, press, and public attention was focused on the administrative budget, which did not measure all federal government activities. The administrative budget omitted receipts and expenditures of federal trust funds. The 1967 President's Commission on Budget Concepts noted that

> the administrative budget, the consolidated cash budget, and the national income accounts budget have often been used as competing measures of the total scope of Federal activity; they are not unified and can be used together only with fairly elaborate reconciliation that tends to confuse more than it enlightens.[13]

In 1968, the Johnson Administration adopted the unified budget concept to account for all receipts and expenditures of the federal government. Subsequent administrations have continued using the unified budget concept, and focus on the surplus or deficit of all federal and trust funds together.

In the annual appropriations process, Congress appropriates money, which gives agencies budget authority to enter into obligations (i.e., legal commitments to make a payment). Most trust fund based programs have permanent budget authority and all monies in the trust fund are available for obligation. Most trust funds lack the authority to incur obligations that exceed the monies in the trust fund. Some trust funds, however, are authorized to borrow from the general fund.[14]

Receipts in excess of outlays are added to the balance of the trust funds. The trust funds surplus (i.e., revenues in excess of outgo) in FY2012 amounted to $89.9 billion. This surplus is mostly invested in government obligations and transferred to the general fund to pay for other spending. By law, all trust funds except the Railroad Retirement fund must invest balances in government obligations.[15] The Railroad Retirement fund is allowed to invest its balance in equities.[16] The government securities held by trust funds are part of federal debt that is subject to the statutory federal debt limit. At the end of FY2012, the trust funds held $4,388.5 billion in government securities.[17] The federal funds deficit for FY2012 was $1,176.8 billion, but because of the trust funds surplus, the unified federal budget deficit (what is widely reported in the press) was $1,087.0 billion.[18]

August 1, 2010, the increased taxes to fund the Airport and Airways Trust Fund. Additionally, the Social Security Act states that "[t]he right to alter, amend, or repeal any provision of this Act is hereby reserved to the Congress" (42 USC 1304). The General Revenue Sharing trust fund (also referred to as the revenue-sharing trust fund), which was financed solely through general revenues, was created in 1972 to provide local-level financing for certain grant programs. It was eliminated in 1986. For a more detailed discussion, see Bruce Wallin, *From Revenue Sharing to Deficit Sharing: General Revenue Sharing and Cities* (Washington, DC: Georgetown University Press, 1998), pp. 100-150.

[13] President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), p. 3.

[14] For example, the Black Lung Disability trust fund.

[15] 31 USC 9702.

[16] In FY2012, about 6.6% of the trust fund balance was invested in government obligations. National Railroad Retirement Investment Trust, *Annual Management Report for Fiscal Year 2012*, pp. 13-16, available at http://www.rrb.gov/pdf/nrrit/reportFY2012.pdf.

[17] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2014*, (Washington: GPO), Table 27-3.

[18] Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2014*, Table 1.4 (Washington: GPO).

Trust fund receipts come from a variety of sources. Almost all trust funds receive monies from current or future beneficiaries. Most trust funds receive general revenues through direct payments or interest payments. In addition, some trust funds receive payments from other trust funds. For example, some railroad retirement benefits are financed by a payment from one of the Social Security trust funds (Old-Age and Survivors Insurance trust fund) to the Railroad Retirement trust fund. **Table 1** shows the trust fund receipts coming from federal funds in FY2012, which amounted to $715.4 billion.

Table 1. Trust Fund Receipts from Federal Funds, FY2012

(in billions of dollars)

Description	Amount
Interest on balances	$127.1
General fund payment to Medicare Parts B and D	210.5
Employing agencies' payments for pensions, Social Security and Medicare	72.8
General fund payments for unfunded liabilities of federal employees retirement funds	98.2
Transfer of taxation of Social Security and railroad retirement benefits to trust funds	46.6
Other receipts from federal funds	160.1
Total	**715.4**

Source: Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2014*, (Washington: GPO), Table 27-2.

The balances of the trust funds do not represent real resources available for spending. Rather they are future obligations of the federal government, and the federal government will have to divert revenues or borrow money from the public to redeem those obligations when they come due. Likewise, the interest on trust fund balances does not represent real resources available for spending—these payments are simply bookkeeping entries debiting one federal account and crediting another. If these interest payments to the trust funds are excluded, the trust funds would show a $38.6 billion deficit instead of an $89.9 billion surplus.[19] Transfers between trust funds and federal funds, however, do not change the unified budget deficit or the level of federal debt.

Figure 1 displays the evolution of trust fund surpluses since FY1962 and projections of trust fund balances through FY2018. With the exception of FY1962 (with a $299 million deficit), the trust funds have been in surplus. As a percentage of gross domestic product (GDP), the trust fund surplus reached a high of 2.4% in FY2000. The large increase in the trust fund surplus after 1982 is due to the 1983 Social Security amendments, which moved Social Security from primarily pay-as-you-go to partial prefunding by increasing the payroll tax rate and taxing Social Security benefits.[20] The surplus fell dramatically from FY2009 through FY2013 because of the increased unemployment benefits paid and reduced payroll tax revenue due to the severe recession, which began in December 2007. Though the size of the trust fund surplus is projected to rebound over the next few years, the downward trajectory is set to resume near the end of the decade primarily

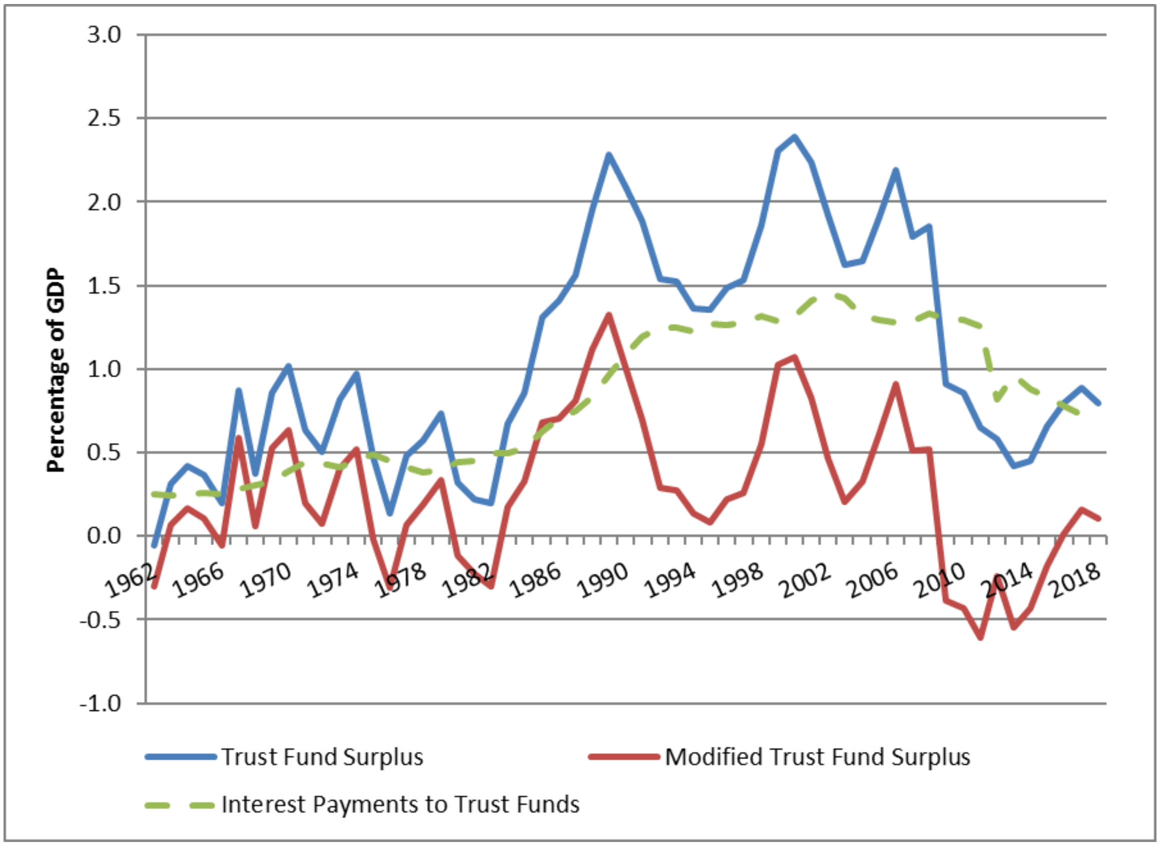
[19] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2014,* (Washington: GPO), Table 27-3.

[20] The Old-Age and Survivors Insurance trust fund was projected to be exhausted by mid-1983. The National Commission on Social Security Reform (known as the Greenspan, after its chairman Alan Greenspan) recommended several changes that formed the basis of the Social Security Amendments of 1983 (P.L. 98-21).

due to the demands on trust fund outgo, primarily as a result of the retirement of the Baby Boomers.

Interest payments to the trust funds are also shown in **Figure 1**. These payments increased from about 0.2% of GDP in FY1962 to 1.5% of GDP by FY2002. Excluding interest payments from the calculation of the trust funds surplus produces a modified trust funds surplus. The modified trust fund surplus compares trust fund outgo with trust fund revenues (earmarked taxes, user fees, and legislatively dedicated general fund revenue). The modified trust fund surplus essentially shows the real resources of the federal government available for spending. The modified trust fund surplus, while following the same trend as the trust fund surplus, was negative in FY1962, FY1976, FY1980-1982, and FY2009-FY2013. Modified trust fund deficits are also projected for FY2014 and FY2015 before a projected return to surplus thereafter.

Figure 1. Trust Funds Surplus, FY1962-FY2018



Source: CRS calculations based on Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2014* (Washington: GPO), Tables 1.2, 1.4, and 3.2.

Note: FY2013 figures are estimates. FY2014-FY2018 figures are OMB projections.

The Office of Management and Budget (OMB) estimated that in FY2013 the trust funds would cumulatively collect $1,879 billion in revenue ($1,721 billion in non-interest revenue and $159 billion in interest revenue) and would outlay $1,811 billion. This would result in an overall $67.6 billion surplus in FY2013. Non-interest revenue to the trust funds would be $90.8 billion less than trust fund program expenditures—the modified trust fund surplus would be negative. OMB projects an aggregate $690.0 billion surplus over the FY2014-FY2018 period. Over the five-year period from FY2014-FY2018, non-interest revenues are projected to be $55.7 billion less than expenditures.[21]

Status of Largest Trust Funds

The FY2012 income, outgo, and balances of the 13 largest trust funds are reported in **Table 2**. The list represents those trust funds with balances in excess of $10 billion and account for over 99% of the balances of all trust funds. These 13 trust funds had a combined positive balance totaling $4,368.5 billion at the end of FY2012. Nine trust funds had income exceeding outgo in FY2012. The other four trust funds had a deficit. The largest deficits in FY2012 were in the Social Security Disability trust fund (-$29.7 billion) and the Medicare Hospital Insurance trust fund (-$16.5 billion). These trust funds are likely to remain in deficit on an annual basis until their projected insolvency unless action is taken to increase revenue to the trust funds or decrease expenditures.[22]

Table 2. Income, Outgo, and Balances of the 13 Largest Trust Funds, FY2012

(in billions of dollars)

Trust Fund	Income	Outgo	Surplus/ Deficit	Balance
Social Security	$837.9	$773.3	$64.6	$2,718.1
Old-Age and Survivors Insurance (OASI)	*729.0*	*634.7*	*94.3*	*2,586.2*
Disability Insurance (DI)	*108.9*	*138.6*	*-29.7*	*131.9*
Civil Service Retirement and Disability	96.8	74.1	22.7	826.6
Military Retirement	55.9	48.8	7.1	375.7
Medicare	541.8	559.2	-17.6	301.0
Supplementary Medical Insurance (SMI)	*292.9*	*293.9*	*-1.1*	*71.7*
Hospital Insurance (HI)	*248.9*	*265.3*	*-16.5*	*229.3*
Employees Life Insurance	4.3	2.7	1.6	40.8
Railroad Retirement	3.6	2.1	1.5	22.1
Employees and Retired Employees Health Benefits	44.7	42.6	2.1	21.2
Foreign Military Sales	26.3	25.9	0.4	18.9
Foreign Service Retirement and Disability	1.4	0.9	0.5	16.9
Transportation	42.8	49.5	-6.7	15.6
Airport and Airway	12.8	11.5	1.3	11.6
Total (largest trust funds)	1,668.3	1,590.6	77.5	4,368.5
Total (all trust funds)	**1,805.3**	**1,715.4**	**89.8**	**4,388.0**

[21] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2014* (Washington: GPO), Table 27-3.

[22] For more information, see CRS Report RL33028, *Social Security: The Trust Fund*, by Dawn Nuschler and Gary Sidor and CRS Report R43122, *Medicare Financial Status: In Brief*, by Patricia A. Davis.

Source: Office of Management and Budget.

Notes: Trust funds ranked by Balance. List contains trust funds with FY2012 balances greater than $10 billion. For a complete list, see **Table 4**.

While nine of these trust funds recorded a surplus in FY2012, only six would still have been in surplus if interest payments from federal funds were excluded (military retirement, employees life insurance, employees and retired employees health benefits, foreign military sales, airport and airway, and railroad retirement). In total, the 13 trust funds would have had a FY2012 deficit of about $50 billion if interest payments were excluded. A brief description of the largest trust funds is provided in **Table 3**, below.

Table 3. Description of Largest Trust Funds

Trust Fund	Year Began	Purpose
Social Security	Social Security Act of 1935, as amended (OASI in 1939, DI in 1956)	Payroll taxes placed in these two trusts funds; benefits paid out of trust funds to retired or disabled workers, their spouses and dependents.
Civil Service Retirement and Disability	The Civil Service Retirement Act of 1920	Covers the defined benefit pension component of the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Funded by employee and agency contributions, and other receipts from federal funds.
Military Retirement	Department of Defense Authorization Act of 1984	Provides retirement and survivor benefits to qualified retired military personnel. Funded by general fund transfers.
Medicare	Social Security amendments of 1965	Medicare Part A is financed through the HI trust fund by payroll tax revenues and provides hospital, hospice, and other services to retired workers; Medicare Part B is financed through the SMI trust fund by premiums and general fund transfers and provides outpatient services to retired and disabled workers.
Employees Life Insurance	Federal Employees Group Life Insurance Act of 1954	Provides funding for a payment to a private insurance company for federal employees' group life insurance (FEGLI) and expenses incurred by OPM to administer the program.
Railroad Retirement	Railroad Retirement Act of 1934	Provides retirement, survivor, disability, unemployment, and sickness insurance for railroad workers and their families. Funded by general fund transfers and investment income.
Employees and Retired Employees Health Benefits	Federal Employees Health Benefits Act of 1959	Employer-provided health insurance program for federal government employees and retirees. Funded by employer and employee contributions.
Foreign Military Sales	Foreign Military Sales Act of 1968	Facilitates government-to-government sales of U.S. manufactured defense equipment, services and construction services. Funds provided by foreign government purchasers.
Foreign Service Retirement and Disability	Foreign Service Act of 1924, as amended	Provides funding for the retirement program for the Foreign Service and Foreign Service Nationals/Locally Hired Employees. Contributions to this fund are made by both the employee and the hiring agency.
Transportation	Highway Revenue Act of 1956 (highways) and Surface Transportation Assistance Act of 1982 (mass transit)	Primarily funded by gasoline excise taxes with some transfers from the general fund. Provides funding for capital construction of highways and mass transit infrastructure.

Trust Fund	Year Began	Purpose
Airport and Airway	Airport and Airway Revenue Act of 1970	Provides funding for capital improvements and operations of U.S. airports and airway system. Funded by tax on domestic airline tickets and other taxes on airway users.

Source: GAO, *Federal Trust and Other Earmarked Funds: Answers to Frequently Asked Questions*, GAO-01-199SP, January 2001 and Congressional Research Service.

Overall, there were 39 trust funds with a deficit in FY2012. Together, these deficits totaled $58 billion. If interest payments from federal funds are excluded, the combined deficit of these 39 trust funds would be $80 billion. Most of this deficit (81%), however, is due to two trust funds—the Medicare Hospital Insurance (HI) and the Social Security Disability Insurance (DI) trust funds. Fifty trust funds had a FY2012 surplus with a combined surplus of $148 billion, but this would be only $41 billion if interest payments from federal funds were excluded (and five would be in deficit).

Trust Fund Insolvency

Over the past few years, large budget deficits and the desire for fiscal sustainability have led to renewed efforts to reform the federal budget. This discussion included debate over how to address entitlements and related trust funds. Because entitlement spending comprises a major portion of federal outlays, significant changes to these programs may be included in a comprehensive reform package. Congress has often taken actions to increase a trust fund's revenues or reduce its outgo when it has faced imminent insolvency or exhaustion of its balances. Examples include the Social Security trust fund in 1983 and, more recently, the airport and airway trust fund. Policymakers can prevent insolvency of any trust fund simply by raising taxes and fees or by injecting general revenues into it. For example, injecting general revenue into a trust fund means reducing spending elsewhere in the budget, increasing the federal deficit, or raising taxes. Alternatively, payments to beneficiaries could be reduced. Making changes to the revenue or outlay structure of a trust fund often requires policymakers to face difficult choices that affect revenues and spending now and in the future.

Table 4, below, shows the income, outgo, and balances of all federal trust funds. In FY2012, total trust fund balances increased by $91 billion to $4,388.5 billion.[23] Most trust funds had a positive balance at the end of FY2012. A handful of trust funds (15) had a zero balance at the end of the fiscal year. Eight of these trust funds had no income and outgo, three had income equal to outgo, and four had surpluses or deficits which resulted in balances of zero. In addition, seven trust funds had a positive end of FY2012 balance, but no income and outgo. Four trust funds—the Railroad Social Security Equivalent Benefit (SSEB) account,[24] the Black Lung Disability trust fund, the Unemployment trust fund, and the Limitation on Administrative Expenses for the Social Security Administration—had negative balances at the end of FY2012 (totaling $20.2 billion).

[23] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2013* and *Fiscal Year 2014* (Washington: GPO).

[24] The negative balance of the SSEB account is due to a timing issue rather than outgo exceeding income. Retired railroad workers receive the equivalent of a Social Security benefit from the Railroad Retirement Board. The funds for this benefit are transferred from the Social Security trust fund once a year, but benefits are paid monthly. The SSEB account receives monthly advances from the general fund to pay the monthly benefits. The general fund advances are repaid annually after the financial transfer from the Social Security trust fund to the SSEB account.

Table 4. Income, Outgo, and Balances of All Trust Funds, FY2012

(in millions of dollars)

Trust Fund Name and Fund Number	Income	Outgo	Surplus (+) /Deficit (-)	Balance
Federal Old-age and Survivors Insurance Trust Fund (016-00-8006)	$729,014	$634,732	$94,282	$2,586,208
Civil Service Retirement and Disability Fund (027-00-8135)	96,780	74,057	22,723	826,571
Military Retirement Fund (200-05-8097)	55,917	48,788	7,129	375,710
Federal Hospital Insurance Trust Fund (009-38-8005)	248,882	265,343	-16,461	229,337
Federal Disability Insurance Trust Fund (016-00-8007)	108,931	138,632	-29,701	131,872
Federal Supplementary Medical Insurance Trust Fund (009-38-8004)	292,863	293,915	-1,052	71,730
Employees Life Insurance Fund (027-00-8424)	4,257	2,674	1,583	40,804
National Railroad Retirement Investment Trust (446-00-8118)	3,577	2,095	1,482	22,051
Employees and Retired Employees Health Benefits Funds (027-00-9981)	44,684	42,598	2,086	21,206
Foreign Military Sales Trust Fund (184-70-8242)	26,310	25,920	390	18,851
Foreign Service Retirement and Disability Fund (014-05-8186)	1,366	871	495	16,892
Transportation Trust Fund (021-15-8102)	42,801	49,513	-6,714	15,598
Airport and Airway Trust Fund (021-12-8103)	12,807	11,510	1,297	11,623
Harbor Maintenance Trust Fund (202-00-8863)	1,587	909	678	6,958
National Service Life Insurance Fund (029-25-8132)	615	1,249	-634	6,915
Hazardous Substance Superfund (020-00-8145)	1,499	1,768	-269	3,345
Vaccine Injury Compensation Program Trust Fund (009-15-8175)	304	207	97	3,233
Oil Spill Liability Trust Fund (024-60-8185)	630	502	128	2,586
Aquatic Resources Trust Fund (024-60-8147)	668	579	89	2,012
Veterans Special Life Insurance Fund (029-25-8455)	174	201	-27	1,954
Education Benefits Fund (200-10-8098)	89	366	-277	1,884
Assessment Funds (015-57-8413)	1,003	817	186	1,367

Trust Fund Name and Fund Number	Income	Outgo	Surplus (+) /Deficit (-)	Balance
Leaking Underground Storage Tank Trust Fund (020-00-8153)	328	2,544	-2,216	1,292
Rivers and Harbors Contributed Funds (202-00-8862)	402	490	-88	979
Host Nation Support Fund for Relocation (007-55-8337)	102	125	-23	817
Rail Industry Pension Fund (446-00-8011)	4,829	4,830	-1	737
Gifts and Contributions (485-00-9972)	219	182	37	642
Foreign National Employees Separation Pay (007-55-8165)	32	52	-20	525
Judicial Survivors' Annuities Fund (002-35-8110)	29	25	4	499
Judicial Officers' Retirement Fund (002-35-8122)	89	45	44	440
Surcharge Collections, Sales of Commissary Stores, Defense (007-55-8164)	313	291	22	383
Voluntary Separation Incentive Fund (007-55-8335)	71	119	-48	312
Foreign Service National Separation Liability Trust Fund (014-05-8340)	48	20	28	298
Forest Service Trust Funds (005-96-9974)	127	287	-160	235
Miscellaneous Trust Funds (009-91-9971)	94	60	34	209
Miscellaneous Trust Funds, AID (184-15-9971)	124	63	61	170
Tribal Trust Fund (010-90-8030)	100	118	-18	165
Gift and Trust Fund Accounts (001-25-9971)	17	16	1	148
District of Columbia Judicial Retirement and Survivors Annuity Fund (349-10-8212)	15	11	4	135
Armed Forces Retirement Home (200-20-8522)	74	108	-34	129
South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund (202-00-8217)	3	8	-5	126
United Mine Workers of America Combined Benefit Fund (476-00-8295)	289	289	0	98
Expenses and Refunds, Inspection and Grading of Farm Products (005-45-8015)	146	154	-8	97
Donations (422-00-8960)	47	51	-4	94
Commissary Funds, Federal Prisons (trust Revolving Fund) (011-20-8408)	361	354	7	87
General Post Fund, National Homes (029-15-8180)	26	24	2	86

Trust Fund Name and Fund Number	Income	Outgo	Surplus (+) /Deficit (-)	Balance
Miscellaneous Trust Funds (010-24-9972)	44	28	16	72
Miscellaneous Trust Funds (021-15-9971)	24	37	-13	72
Barry Goldwater Scholarship and Excellence in Education Foundation (313-00-8281)	2	2	0	67
Cheyenne River Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Fund (015-10-8209)	1	1	0	67
Post-Vietnam Era Veterans Education Account (029-25-8133)	1	1	0	65
Inland Waterways Trust Fund (202-00-8861)	90	81	9	63
Miscellaneous Trust Funds (010-04-9971)	24	23	1	59
Special Workers' Compensation (012-15-9971)	131	135	-3	59
Harry S Truman Memorial Scholarship Trust Fund (372-00-8296)	3	2	1	56
Tobacco Trust Fund (005-49-8161)	939	891	48	49
Morris K. Udall and Stewart L. Udall Foundation (487-00-8615)	4	2	2	47
Other DOD Trust Funds (007-55-9971)	30	29	0	47
Miscellaneous Trust Funds (014-05-9971)	27	21	6	40
James Madison Memorial Fellowship Trust Fund (381-00-8282)	2	2	0	39
Japan-United States Friendship Trust Fund (382-00-8025)	2	2	0	37
Reclamation Trust Funds (010-10-8070)	0	1	-1	37
Foreign Service National Separation Liability Trust Fund (184-15-8342)	3	1	2	36
Miscellaneous Contributed Funds (005-18-8214)	30	23	7	35
Court of Appeals for Veterans Claims Retirement Fund (345-00-8290)	5	1	4	28
National Archives Trust Fund (393-00-8436)	19	16	3	26
United States Court of Federal Claims Judges' Retirement Fund (002-35-8124)	4	2	2	24
National Archives Gift Fund (393-00-8127)	7	4	3	23
Center for Middle Eastern-Western Dialogue Trust Fund (014-25-8813)	0	1	-1	17
Manufactured Housing Fees Trust Fund (025-09-8119)	6	7	-1	17

Trust Fund Name and Fund Number	Income	Outgo	Surplus (+) /Deficit (-)	Balance
John C. Stennis Center for Public Service Training and Development Trust Fund (001-45-8275)	1	1	0	15
Science, Space, and Technology Education Trust Fund (026-00-8978)	1	1	0	15
Miscellaneous Trust Funds, Maritime Administration (021-70-8547)	1	16	-15	14
Miscellaneous Trust Funds (005-32-9971)	10	11	-1	13
United States Government Life Insurance Fund (029-25-8150)	1	5	-4	13
Israeli Arab and Eisenhower Exchange Fellowship Programs (014-25-8276)	0	1	-1	12
Contributions (200-15-8569)	1	0	1	11
Tax Court Judges Survivors Annuity Fund (001-40-8115)	0	0	0	11
U.S. Capitol Preservation Commission (001-45-8300)	0	0	0	10
Radiation Exposure Compensation Trust Fund (011-06-8116)	75	83	-8	10
Contributed Funds (010-18-8216)	3	4	-1	7
Open World Leadership Center Trust Fund (001-45-8148)	11	12	-1	7
Peace Corps Miscellaneous Trust Fund (184-35-9972)	3	4	-1	7
Gifts and Donations, African Development Foundation (184-50-8239)	2	3	-1	5
National Security Education Trust Fund (007-55-8168)	0	0	0	5
Expenses and Refunds, Inspection and Grading of Farm Products (005-35-8137)	11	10	1	4
Gifts and Donations (024-10-8244)	0	0	0	4
Gifts and Bequests (005-03-8203)	1	1	0	3
Gifts and Bequests (025-35-8093)	0	0	0	3
Gifts and Donations, National Endowment for the Arts (417-00-8040)	1	0	0	3
Miscellaneous Trust Funds (309-00-9971)	9	8	1	3
General Gift Fund (024-60-8533)	2	2	0	2
Gifts and Bequests (006-05-8501)	5	4	1	2
Gifts and Donations, Bureau of Indian Affairs (010-76-8361)	0	1	-1	2

Trust Fund Name and Fund Number	Income	Outgo	Surplus (+) /Deficit (-)	Balance
Miscellaneous Contributed Funds (005-53-8210)	0	0	0	2
Public Safety Trust Fund (006-60-8233)	0	0	0	2
Christopher Columbus Fellowship Foundation (465-00-8187)	1	1	0	1
Contributed Funds (010-12-8562)	1	1	0	1
Gifts and Bequests (015-05-8790)	0	0	0	1
Gifts and Donations, National Endowment for the Humanities (418-00-8050)	1	1	0	1
Miscellaneous Trust Revolving Funds (024-60-9981)	13	14	-1	1
National Space Grant Program (026-00-8977)	0	1	-1	1
Adjustment for Medicare Proposals (009-38-8999)	0	0	0	0
Capital Magnet Fund, Community Development Financial Institutions (015-05-8524)	0	5	-5	0
Cheyenne River Sioux Tribal Recovery Trust Fund (015-12-8620)	436	436	0	0
Energy Security Trust (019-20-8577)	0	0	0	0
Gifts and Donations (001-15-8189)	0	0	0	0
Gulf Coast Restoration Trust Fund (015-12-8625)	0	0	0	0
Milk Market Orders Assessment Fund (005-45-8412)	53	53	0	0
Office of Museum and Library Services: Grants and Administration (474-00-0300)	1	0	1	0
Patient-Centered Outcomes Research Trust Fund (579-00-8299)	150	191	-41	0
Program Administration (018-80-0800)	1	0	1	0
Program Integrity Administrative Expenses (016-00-8183)	0	0	0	0
Salaries and Expenses (005-68-2900)	0	0	0	0
Santee Sioux Tribe Development Trust Fund (015-12-8626)	0	0	0	0
US Customs Refunds, Transfers and Expenses, Unclaimed and Abandoned Goods (024-58-8789)	3	3	0	0
Yankton Sioux Tribe Development Trust Fund (015-12-8627)	0	0	0	0
Limitation on Administrative Expenses (016-00-8704)	11,490	11,488	2	-5

Trust Fund Name and Fund Number	Income	Outgo	Surplus (+) /Deficit (-)	Balance
Railroad Social Security Equivalent Benefit Account (446-00-8010)	7,039	6,811	228	-2,463
Black Lung Disability Trust Fund (012-15-8144)	630	296	334	-5,148
Unemployment Trust Fund (012-05-8042)	110,386	96,227	14,175	-12,573

Source: OMB.

Note: Surplus (+)/Deficit (-) reflects status of fund balance for current fiscal year. Balance reflects status at the end of the fiscal year and includes borrowing transfers and/or adjustments.

Longer-Term Status of Trust Funds

The Administration estimates the status of the larger trust funds for the upcoming fiscal year and the five subsequent years in its annual budget submission. In addition, the Social Security and Medicare Trustees produce two annual reports that project the financial status of the Social Security and Medicare trust funds for the next 75 years.

According to OMB projections, by the end of FY2018, all but one of the trust funds listed in **Table 2** are projected to have a positive balance. However, several of the balances in these trust funds remain flat or shrink over this period.[25] Specifically, the balances of the Railroad Retirement, Medicare Hospital Insurance (HI), and Social Security Disability Insurance (DI) trust funds are expected to decrease.

In the 2013 Trustees reports, the Trustees project that the Social Security and Medicare trust funds will be exhausted within the next 30 years: the Old-Age and Survivors Insurance (OASI) trust fund in 2035, the Disability Insurance (DI) trust fund in 2016, and the Hospital Insurance (HI) trust fund in 2026.[26] The Supplementary Medical Insurance (SMI) trust fund is projected to be adequately financed indefinitely because under current law general fund financing is automatically provided to meet next year's expected costs. Once the trust funds are exhausted, the trust fund programs in any year will have the authority to obligate only the revenues received that year (in the absence of any legislation). For example, after trust fund exhaustion in 2033, Social Security will have tax revenue sufficient to pay about 75% of scheduled benefits, which would entail reducing Social Security beneficiaries' monthly benefits by 25%, absent other changes.[27]

Economic Effects of Trust Funds

Trust funds and trust fund programs can have both short-term and long-term effects on the economy. In the short term, many trust fund programs provide monetary benefits through outlays to the public, which are in turn spent on goods and services. A change in these benefits will increase or decrease consumer spending and thus economic activity. For example, government spending for unemployment compensation increases during recessions, which acts as a short-term fiscal stimulus. Unemployment compensation is what is known as an automatic stabilizer.

The long-term effect is through the impact the trust funds have on national saving. Saving is the portion of national output that is not consumed and represents resources that can be used to increase, replace, or improve the nation's capital stock. Consequently, saving can increase the productive capacity of the nation, future income, and the amount of goods and services consumed in the future.

National saving is the sum of private saving (by households and businesses) and public saving (by federal, state, and local governments). It has been argued that trust funds and trust fund

[25] Office of Management and Budget, "Trust Funds and Federal Funds," *Analytical Perspectives, Budget of the U.S. Government, Fiscal Year 2014* (Washington: GPO). Combined, all of the federal trust funds are projected to experience increasing surpluses and growing balances between FY2012 and FY2018.

[26] Social Security and Medicare Board of Trustees, *A Summary of the 2013 Annual Reports*, available at http://www.ssa.gov/oact/TRSUM/index.html. Together, the two Social Security trust funds will be exhausted in 2033.

[27] For additional information, see CRS Report RL33028, *Social Security: The Trust Fund*, by Dawn Nuschler and Gary Sidor; CRS Report RL33514, *Social Security: What Would Happen If the Trust Funds Ran Out?*, by Christine Scott; and CRS Report RS20946, *Medicare: Insolvency Projections*, by Patricia A. Davis.

programs (especially Social Security) can adversely affect both private and public saving. First, in a widely cited and influential article, Martin Feldstein estimated that Social Security has had the effect of lowering personal saving (a component of private saving) by 20% - 50% through an asset-substitution effect and the inducement-to-retire effect.[28] However, Feldstein's results were questioned by Dean Leimer and Selig Lesnoy who found that Feldstein's work was flawed because of a computer programming error.[29] After correcting the error, they concluded that the data show that Social Security had very little effect on personal saving. In a subsequent paper, Feldstein reestimated his model with updated data and obtained essentially the same results as in his earlier paper.[30] Dennis Coates and Brad Humphreys, and Philip Meguire, however, showed that Feldstein's results are not robust to alternative specifications.[31] In a review of the literature, the Congressional Budget Office (CBO) concluded that for each dollar of Social Security wealth, private wealth is reduced by between zero and 50 cents; however, CBO could not rule out higher or lower effects.[32]

Second, two studies suggest that trust fund surpluses in general and the Social Security trust funds in particular tend to increase federal deficits and reduce public saving. Kent Smetters estimated that for each dollar increase in the Social Security surplus, the non-Social Security federal budget deficit increased by more than $2.00.[33] Sita Nataraj and John Shoven examined all trust fund surpluses rather than just the Social Security trust fund surplus and estimated that each dollar increase in trust fund surpluses is offset by a $1.50 increase in the federal funds deficit.[34] The authors blame the shift to the unified budget concept after FY1969.

Subsequent research, however, has questioned these findings. Peter Orszag showed that the results of Nataraj and Shoven are sensitive to the variables used and time period examined.[35] Thomas Hungerford shows that previous researchers (Smetters, and Nataraj and Shoven) paid insufficient attention to the statistical properties of their variables, and, consequently, their results appear to be spurious.[36] After correcting the methodological problems, he found no support for the argument that trust fund surpluses increased federal funds deficits.

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[28] Martin Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy*, vol. 82, no. 5 (1974), pp. 905-926.

[29] Dean R. Leimer and Selig D. Lesnoy, "Social Security and Private Saving: New Time-series Evidence," *Journal of Political Economy*, vol. 90, no. 3 (1982), pp. 606-629.

[30] Martin Feldstein, "Social Security and Saving: New Time Series Evidence," *National Tax Journal*, vol. 49, no. 2 (1996), pp. 151-164.

[31] Dennis Coates and Brad R. Humphreys, "Social Security and Saving: Comment," *National Tax Journal*, vol. 52, no. 2 (1999), pp. 261-268; and Philip Meguire, "Comment: Social Security and Saving," *National Tax Journal*, vol. 51, no. 2 (1998), pp. 339-358.

[32] Congressional Budget Office, *Social Security and Private Saving: A Review of the Literature*, CBO Memorandum, July 1998.

[33] Kent Smetters, "Is the Social Security Trust Fund a Store of Value?" *American Economic Review, Papers and Proceedings*, vol. 94, no. 2 (2004), pp. 176-181.

[34] Sita Nataraj and John Shoven, *Has the Unified Budget Undermined the Federal Government Trust Funds?*, National Bureau of Economic Research, Working Paper no. 10953, Cambridge, MA, December 2004.

[35] Peter Orszag, Comments on Sita Nataraj and John Shoven "Has the Unified Budget Undermined the Federal Government Trust Funds?" presented at the Future of Social Security Conference, Washington, DC, November 2004.

[36] Thomas Hungerford, "The Social Security Surplus and Public Saving," *Public Finance Review*, vol. 37, no. 1 (2009), pp. 94-114.

The mixed evidence seems to support the claim that trust fund surpluses reduce the federal government deficit and increase public saving. This becomes important at the time when trust funds need to redeem the Treasury obligations held by the trust fund to cover outgo. The Treasury obligations in the trust fund are claims on the government and the government will have to find real resources (by raising revenue, decreasing spending, or issuing more debt) to cover these claims when the obligations are redeemed.

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Acknowledgments

Former CRS colleague Thomas Hungerford was the original author of this report. The current author updated the report and is able to answer questions from congressional clients.

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